



## Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at <http://about.jstor.org/participate-jstor/individuals/early-journal-content>.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact [support@jstor.org](mailto:support@jstor.org).

# THE JOURNAL OF POLITICAL ECONOMY

---

*FEBRUARY—1908*

---

## THE CRISIS OF 1860 AND THE FIRST ISSUE OF CLEARING-HOUSE CERTIFICATES. I.

The causes of crises are so subtle in nature that any attempt to foretell fluctuations in the financial world might well be considered hazardous. No one in the opening months of the year 1860 thought of doubting the continuance of the rising tide of prosperity which had begun to gather strength the year before. And yet the closing months of the year saw such a destruction of trade and credit, and the downfall of so many powerful houses, that the financial situation in New York and, indeed, throughout the United States generally, occasioned deep anxiety to the financiers of the world. This revulsion is in itself worthy of attention as a study of a financial panic; but it is of still greater historical interest to the student of credit and crises because it was the first occasion, in this country, of the issue of clearing-house certificates as a means of checking the course of liquidation.

As will be shown hereafter, the panic was caused by the rupture of business relations between the North and the South, and aggravated by the suspension of normal trade relations between the East and the West. In order that the causes that occasioned the revulsion may be clearly apprehended, it will be necessary, first of all, to describe the condition of industry and agriculture in the South and West. In doing so, the inquiry will be confined to the decade 1850-60.

The state of agriculture in the South may first be noted. Cotton was king of all the crops below Mason and Dixon's line. During the decade it had increased greatly in value and volume. The rapid recovery of the South from the destructive panic of 1857 was due largely to the immense value of this crop.<sup>1</sup> Mississippi produced more cotton than any other state. In 1860 her harvest of cotton was greater than that of the entire United States in 1850.<sup>2</sup> The following figures show the extent of this crop in the years 1856-60.<sup>3</sup>

TABLE I. COTTON CROP

Year	Bales
1856-57.....	2,937,519
1857-58.....	3,113,962
1858-59.....	3,851,481
1859-60.....	4,675,770

Not only did cotton bring wealth to the South, but thousands of workmen in the North and in Europe found employment in transforming it into the finished product. When war broke out many southern newspapers confidently predicted that the lack of raw cotton would cause the closing of many factories in the North; and that the consequent pressure of the unemployed would soon force northerners to sue for peace.

But there were other indications of agricultural prosperity in the South in addition to the cotton crop. Rice and tobacco were two other important products. The yield of rice, however, had diminished considerably during the decade.<sup>4</sup> Tobacco, on the contrary, had increased greatly in amount and value. In 1850, 90,961,429 pounds were produced; and in 1860, 203,642,093 pounds.<sup>5</sup> It should be noted, too, that the raising of live stock was an important branch of agriculture there. In this respect, its interests were approximately as great as those of all the remaining states in the Union together.<sup>6</sup> That the South was pros-

<sup>1</sup> *Bankers' Magazine* (New York), 1860-61, Vol. 15, p. 514.

<sup>2</sup> *Eighth Census* (1860), "Agriculture," p. 94 of the Introduction.

<sup>3</sup> *Bankers' Magazine*, Vol. 15, p. 542.

<sup>4</sup> *Eighth Census* (1860), "Agriculture," p. 95.

<sup>5</sup> *Ibid.*, p. 294.

<sup>6</sup> *Ibid.*, pp. 192-195.

perous is indicated, also, by the upward trend in the value of its farm lands.<sup>7</sup> In this, to be sure, it merely shared in conditions which were general throughout the country.<sup>8</sup>

Turning to industry, it must be acknowledged that the South did not keep pace with the marvelous industrial expansion of the North.<sup>9</sup> Yet it was not wholly untouched by the industrial forces which were transforming the rest of the country. For example, considerable progress had been made in railway construction; as may be seen from the following table:<sup>10</sup>

TABLE II  
MILES OF RAILROAD IN THE UNITED STATES 1850 AND 1860

States	No. Miles in 1850	No. Miles in 1860	Increase in Mileage
Southern States.....	2,335	10,712	8,376
New England States.....	2,506	3,669	1,162
The remaining states.....	3,746	16,210	12,464

The amount of capital invested in manufacturing had increased from \$96,615,214 in 1850 to \$159,496,592 in 1860.<sup>11</sup> The latter sum was small indeed, in comparison with that invested in the North. The Northwest and South, however, were composed essentially of agricultural states; and a comparison between the amounts of capital invested in these two sections of the country will prove helpful in understanding their industrial development in 1860. These data are given in the following table:<sup>12</sup>

<sup>7</sup> *Eighth Census* (1860), "Agriculture," p. 7.

<sup>8</sup> *Ibid.*, p. 7, and *Seventh Census* (1850), p. 82 of the Introduction.

<sup>9</sup> Taussig, *Tariff History of the United States*, p. 73; Bullock, *Economics* p. 27; Woodrow Wilson, *Division and Reunion*, pp. 127, 212, 245; McMaster, *History of the United States*, Vol. II, p. 14; Cairne, "Slave Power," *Harper's Magazine*, Vol. XXIX, p. 123.

<sup>10</sup> Compiled from statistics in *Preliminary Report of the Census*, 1860, pp. 234, 235.

<sup>11</sup> *Eighth Census* (1860), "Manufactures," pp. 729, 730.

<sup>12</sup> The table is from Dr. Dyer, *Democracy in the South before the Civil War*. I have verified the figures given by consulting the *Eighth Census* (1860), "Population," p. 598; and "Manufactures," pp. 729, 730.

TABLE III. AMOUNTS OF CAPITAL INVESTED IN NORTHWEST AND SOUTH, 1860\*

Maryland . . . . .	34.8	Tennessee . . . . .	17.7
Michigan . . . . .	30.4	Alabama . . . . .	17.0
Ohio . . . . .	24.4	Illinois . . . . .	16.0
Virginia . . . . .	24.3	North Carolina . . . . .	14.6
Florida . . . . .	23.8	Indiana . . . . .	13.8
South Carolina . . . . .	23.0	Minnesota . . . . .	13.8
Kentucky . . . . .	21.0	Mississippi . . . . .	13.3
Wisconsin . . . . .	20.4	Iowa . . . . .	10.7
Louisiana . . . . .	19.0	Texas . . . . .	7.7
Missouri . . . . .	18.7	Arkansas . . . . .	4.0
Georgia . . . . .	18.3		

\*The quantities in this table are expressed in terms of millions of dollars, five ciphers being omitted.

Then, as now, the industrial expansion of the South was retarded by an insufficient supply of labor. It is significant to find that, of the immigration into the United States previous to 1860, the North had received practically all. Thousands of energetic workmen from Europe came to the United States every year; but nearly all settled in the cities of the North or on the farms of the West.<sup>13</sup>

The South had made considerable progress in banking; although it must not be forgotten that many of the banks there were as notoriously bad as those in the western states. The Louisiana banking system, however, was one of the best in the country. Under this system, adopted in 1842, Louisiana had become in 1860 the fourth state in the Union in point of banking capital, and second in the amount of specie held.<sup>14</sup> Increase

<sup>13</sup> See *The International Review*, 1881, pp. 88-96. There Professor J. Laurence Laughlin discusses the reasons for this state of affairs. See also the *Ninth Census*, in which General Francis A. Walker gives a colored map indicating the location of the foreign-born population about this time. It may be noted here that the South had quite an extensive list of manufactures, though on a comparatively small scale. The *Eighth Census* (1860), pp. 604-69, enumerates the following manufactures among others: Steam engines, tobacco, carriages, wagons, leather, flour, meal, sawed lumber, woolen goods, cotton goods, boots and shoes, clothing, wool-carding, saddlery and harness, paper, printing materials, hats and caps, iron bloom, bar iron, sheet and railroad iron, salt, hemp and manilla cordage, coal and turpentine.

<sup>14</sup> The principal features of the act of 1842, which established the system, were the following: (1) The specie reserve was to be equal to one-third of all

in the banking business is, however, best shown by expansion in loans, discounts, and deposits; and not by growth of capital stock. The following table presents a statement of the condition of banking in the various sections of the country during the years 1854-1861.<sup>15</sup>

TABLE IV  
BANKING CAPITAL, LOANS AND DISCOUNTS, AND DEPOSITS IN THE  
UNITED STATES, 1854-61\*

CAPITAL						
Year	Eastern States	Middle States	Southern States	Southwest States	Western States	United States
1854-55.....	101.8	120.7	49.2	41.0	19.3	332.1
1855-56.....	110.4	125.9	48.6	41.8	16.9	343.8
1856-57.....	114.6	140.2	50.5	44.6	20.7	370.8
1857-58.....	117.2	154.4	52.0	49.6	21.2	394.6
1858-59.....	119.5	156.3	48.5	54.2	23.1	401.9
1859-60.....	123.4	159.0	54.5	59.3	25.3	421.8
1860-61.....	123.7	160.0	56.2	62.9	26.5	429.5

LOANS AND DISCOUNTS						
1854-55.....	173.5	241.6	69.5	64.3	26.9	576.1
1855-56.....	177.4	279.2	75.8	73.5	28.1	634.1
1856-57.....	187.7	299.8	82.4	82.8	31.6	684.4
1857-58.....	177.8	247.6	70.0	64.6	22.9	583.1
1858-59.....	179.9	284.7	77.0	85.9	29.4	657.1
1859-60.....	190.1	289.6	82.2	101.4	28.4	691.9
1860-61.....	194.8	304.2	79.2	89.0	29.3	696.7

DEPOSITS						
1854-55.....	29.9	117.4	11.6	19.7	11.6	190.4
1855-56.....	31.5	127.4	12.9	26.3	14.4	212.7
1856-57.....	34.5	139.8	15.1	26.5	14.2	230.3
1857-58.....	28.1	113.8	13.1	22.3	8.3	185.9
1858-59.....	41.8	150.6	18.1	38.5	10.3	259.5
1860-61.....	41.3	145.8	18.2	37.9	10.4	253.8

\*The quantities in this table are expressed in terms of millions of dollars, five ciphers being omitted

demand liabilities; (2) the other two-thirds of the demand liabilities were to be provided for in the form of "liquid" or "quick" assets—namely, commercial paper having not more than ninety days to run; (3) all commercial paper had to be paid at maturity. If an extension of term was asked for, the account of the party had to be closed, and his name sent to other banks as a delinquent; (4) all banks were to be examined regularly by a board of state officers. See Horace White, *Money and Banking*, pp. 366, 367.

<sup>15</sup> *Finance Report*, 1876, pp. 201, 202.

As has been said, the panic was aggravated by the suspension of normal trade relations between the East and the West.<sup>16</sup> To understand this clearly it will be necessary to describe, briefly, the extent of the development of the West, and its economic relations with the East.

The interests of the West were mainly agricultural. It furnished the East with breadstuffs, and materials for manufacture, and received in return farm implements, clothing, shoes, and other finished products. Likewise it exchanged wheat, flour, cheese, and other foodstuffs for the tobacco and rice of the South. Its export trade to Europe was carried on chiefly through commission merchants in New York. This export trade, though large, was insignificant in comparison with its trade with the East and South. For example, the single state of Illinois produced 23,837,023 bushels of wheat in 1860; but the whole amount of wheat, including that reduced to flour, exported from the United States in the same year was only 17,213,133 bushels.<sup>17</sup>

The people of the West were active, intelligent, and industrially progressive. They were eager to adopt the newest agricultural machinery, and had no inhibiting prejudices such as obtained in other sections, to overcome. Through their industry farm lands increased greatly in value during the decade,<sup>18</sup> and evidence of their wealth may be seen in the great crops of grain harvested. The increase in the production of wheat, then as

<sup>16</sup> By the "West" is meant the following states: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Ohio, Wisconsin, and Nebraska.

<sup>17</sup> *Eighth Census* (1860), "Agriculture," p. cxliv.

<sup>18</sup> *The Eighth Census*, "Agriculture," Introduction, p. vii, gives the following data on the land of the West in 1860:

VALUE OF LAND IN THE WESTERN STATES, 1860

State	Improved	Unimproved	Cash Value
Ohio.....	\$12,625,304	\$7,846,747	\$678,132,991
Illinois.....	13,096,374	7,815,515	408,944,033
Indiana.....	8,242,183	8,146,100	356,712,175
Wisconsin.....	3,746,167	4,147,420	131,117,164
Iowa.....	3,792,792	6,277,115	119,809,547
Michigan.....	3,476,206	3,554,538	160,836,495
Minnesota.....	556,250	2,155,718	27,505,922

now one of the great crops of the West, had been phenomenal.<sup>19</sup> Already too, the western plains were bringing forth immense crops of corn—since become the most valuable agricultural product of the United States.<sup>20</sup> Oats also was an important western crop.<sup>21</sup>

Among other important subsidiary agricultural interests may

<sup>19</sup> The following table shows the amount of wheat grown in the West in the two years 1850 and 1860, *Eighth Census*, "Agriculture," Introduction, pp. xix, xx:

WHEAT CROP IN WESTERN STATES, 1850 AND 1860 (BUSHEL8)

State	1850	1860
Illinois.....	9,414,575	23,837,023
Indiana.....	6,214,458	16,848,267
Wisconsin.....	4,286,131	15,057,458
Ohio.....	14,487,351	15,110,047
Iowa.....	1,539,581	8,449,403
Michigan.....	4,925,889	8,336,368
Minnesota.....	1,401	2,186,993

<sup>20</sup> The following table shows the amount of corn grown in the two years 1850 and 1860, *Eighth Census*, "Agriculture," Introduction, pp. xlix, l:

CORN CROP IN WESTERN STATES, 1850 AND 1860 (BUSHEL8)

State	1850	1860
Illinois.....	57,646,984	115,174,777
Ohio.....	59,078,695	73,543,190
Indiana.....	52,964,363	71,588,919
Iowa.....	8,556,799	42,410,686
Michigan.....	5,641,420	12,444,676
Wisconsin.....	1,988,979	7,517,300
Kansas.....	.....	6,150,727
Minnesota.....	16,725	2,941,952
Nebraska.....	.....	1,482,080

<sup>21</sup> The following are the figures for oats, *Eighth Census*, "Agriculture," Introduction, p. xlv:

OAT CROP IN WESTERN STATES, 1850 AND 1860 (BUSHEL8)

State	1850	1860
Ohio.....	13,472,742	15,409,234
Illinois.....	10,087,241	15,220,029
Wisconsin.....	3,414,672	11,059,260
Iowa.....	1,524,345	5,887,645
Indiana.....	5,655,014	5,317,381
Michigan.....	2,866,056	4,036,980
Minnesota.....	30,582	2,176,002
Nebraska.....	.....	74,502
Kansas.....	.....	88,325



be mentioned the making of butter and cheese.<sup>22</sup> These dairy products brought millions of dollars into the pocket of the farming population. The development of the live-stock industry already foreshadowed the importance it was to assume in our own time.<sup>23</sup>

Towns and cities had sprung up on all sides. The growth of Chicago is typical of the advance of the West. In 1838 the number of bushels of wheat sold on the Chicago market was 38; and in 1860 it had grown to 16,054,379.<sup>24</sup> This city had thus become the greatest exporting wheat market in the world.<sup>25</sup>

To carry their produce to market the people of the West for many years were compelled to use the Mississippi. But with the era of railroad building, which began in 1849, more direct com-

<sup>22</sup> The following data are taken from the *Eighth Census*, "Agriculture," p. lxxxiii:

PRODUCTION OF BUTTER AND CHEESE IN THE UNITED STATES, 1850 AND 1860  
(POUNDS)

STATE	BUTTER		CHEESE	
	1850	1860	1850	1860
Ohio.....	34,449,379	48,543,162	20,819,542	21,618,893
Illinois.....	12,526,543	28,052,551	1,278,225	1,848,557
Michigan.....	7,065,878	15,593,482	1,011,492	1,641,897
Wisconsin.....	3,633,750	13,611,328	400,283	1,104,300
Iowa.....	2,171,188	11,953,666	209,840	918,635
Minnesota.....	1,100	2,957,673	.....	199,314
Kansas.....	.....	1,093,497	.....	29,045

<sup>23</sup> The following are the figures for the live-stock industry, *Eighth Census*, "Agriculture," p. cxxvii:

VALUE OF LIVE STOCK IN WESTERN STATES IN 1850 AND 1860

State	1850	1860
Ohio.....	\$44,121,741	\$80,384,819
Illinois.....	24,209,258	72,501,225
Indiana.....	22,478,555	41,855,539
Michigan.....	8,008,734	23,714,771
Iowa.....	3,689,275	22,476,293
Wisconsin.....	4,897,385	17,807,375
Minnesota.....	92,859	3,642,841
Kansas.....	none	3,332,450
Nebraska.....	none	1,128,771

<sup>24</sup> *Ibid.*, p. xlii.

<sup>25</sup> *Ibid.*

munications were established with the East. In the decade 1850-60, 9,119 miles were built in six western states.<sup>26</sup>

Having made this preliminary survey of the economic development of the South and West during the years immediately preceding and including the panic year of 1860, it is desirable briefly to indicate the course of trade during that period. The foreign trade is especially significant, and is summarized in the following table.<sup>27</sup> As the fiscal year ended in June, the figures for 1858 include returns for the latter half of the abnormal year of 1857.

TABLE V  
FOREIGN TRADE OF THE UNITED STATES, 1857-61

Year	Exports	Imports	Excess of Exports	Excess of Imports
1857.....	\$293,823,760	\$348,128,342	.....	\$54,304,582
1858.....	272,011,274	263,338,654	\$8,672,620	.....
1859.....	292,902,051	331,333,341	.....	38,431,290
1860.....	333,576,057	353,616,119	.....	20,040,062
1861.....	219,553,833	289,310,542	.....	69,756,709

It will be seen from the table that imports of merchandise for the fiscal year 1858 fell off \$85,000,000. Add to this sum \$6,000,000, the value of imports which were re-exported, and the imports for consumption fall \$91,000,000 below the figures for 1857. Europe also had suffered in the panic of 1857; and during the succeeding year her purchases of American goods fell off by \$21,000,000.<sup>28</sup> There was, however, an increase of sales in 1859, the value of exports being almost identical with that for the fiscal year 1857. Imports in 1859 fell short of the high mark

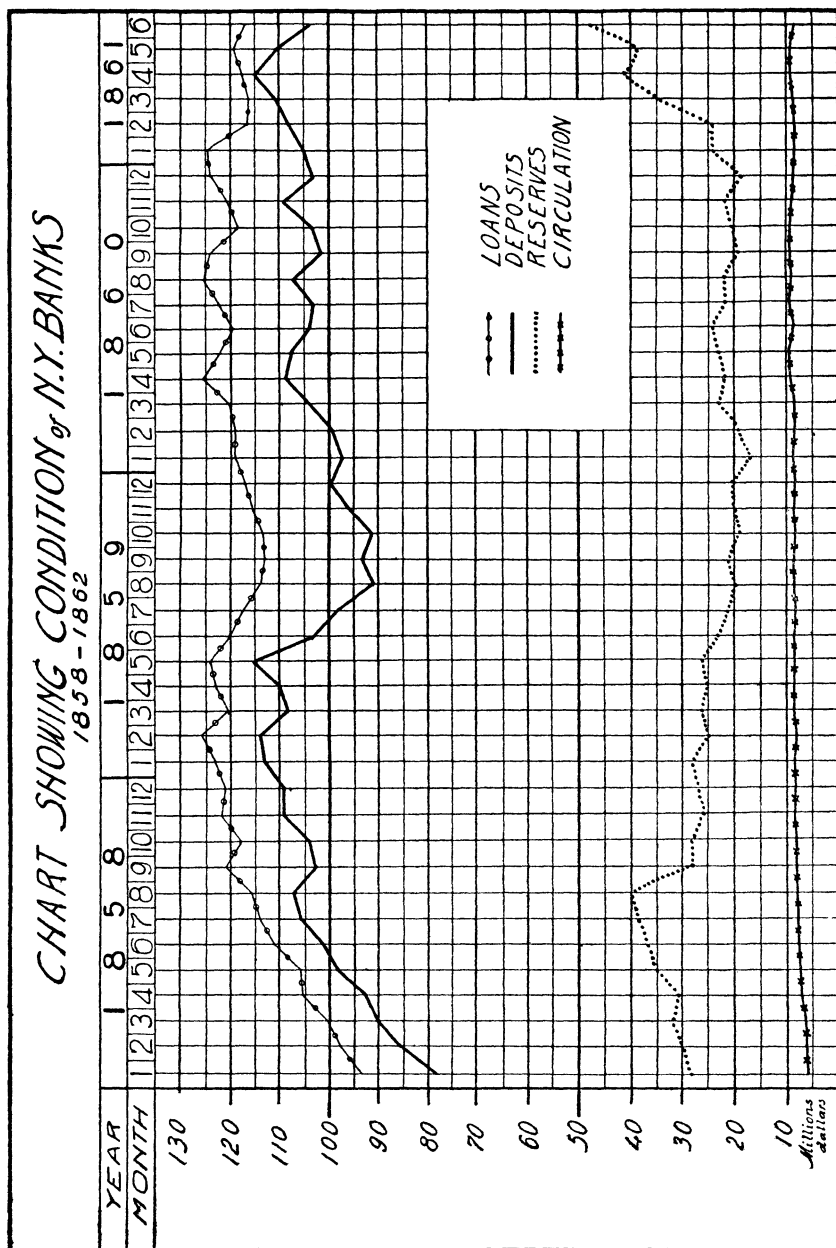
<sup>26</sup> The following table shows the immense development during the decade, *Eighth Census*, "Agriculture," p. cxlvii:

MILES OF RAILROAD IN WESTERN STATES, 1850 AND 1860

State	1850	1860	Increase in Mileage
Ohio.....	575	2,999	2,424
Illinois.....	110	2,867	2,757
Indiana.....	228	2,125	1,897
Wisconsin.....	20	922	902
Michigan.....	342	799	457
Iowa.....	...	679	679

<sup>27</sup> *Statistical Abstract of the United States* (1878), p. 28.

<sup>28</sup> *Ibid.*, p. 28.



reached in 1857 by only \$17,000,000. Business continued during 1859, to expand by leaps and bounds, and never in the history of the country had the outlook been more encouraging than in the first few months of the disastrous year 1860. During the fiscal year which ended June 30, 1860, foreign trade reached the highest mark yet attained, exports standing at \$333,000,000 and the imports at \$353,000,000.<sup>29</sup>

It is of great importance to understand the condition of the New York City banks during the years 1857-1860. Since the panic of 1857 they had been accustomed to keep on hand an amount of specie equal to about one-fifth of their cash liabilities.<sup>30</sup> This average amount of specie was \$20,000,000; but at one time—August, 1858—the specie reserves stood at \$35,000,000. It will be seen by glancing at the accompanying chart that the banks began to expand their loans at the beginning of the year 1858.<sup>31</sup> The loans stood at \$98,000,000 in January of that year, and mounted steadily to \$127,000,000 in November. This indicated an increasing confidence in the permanency of the revival in business.

The banks continued to expand their loans in the following year until the month of June, when there was a decided contraction. The country was buying heavily from Europe, and there were many accounts to settle abroad. In addition, war had broken out between France and Sardinia on the one hand and Austria on the other. At the outbreak of hostilities many European houses failed, especially in Germany, Austria, and Italy.<sup>32</sup> It became difficult to sell exchange on these countries, as brokers were not certain that the drafts offered for sale had not been drawn on houses that were now in liquidation.

Thus were conditions prepared for the crisis of 1860. In Part II of this paper the rapid developments of the following months will be followed in detail.

WILLIAM WALKER SWANSON

THE UNIVERSITY OF CHICAGO

<sup>29</sup> *Ibid.*, p. 28.

<sup>30</sup> See the data in table vii.

<sup>31</sup> See chart.

<sup>32</sup> *Hunt's Merchants' Magazine*, Vol. XLI, p. 76.